



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE VENTERSDORP LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ventersdorp Local Municipality, which comprise statement of financial position as at 30 June 2009, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages [XX] to [XX].

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit.
4. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

5. I was unable to obtain sufficient appropriate audit evidence to verify property, plant and equipment of R65 076 733 (2008: R56 669 950). Adequate corrective procedures to address issues raised in the prior year audit report have not been implemented. A suitable fixed asset register has not been maintained, resulting in the inability to disclose additions and disposal of assets accurately. Furthermore, asset descriptions and location identification is insufficient. Hence, I was unable to recalculate backlog depreciation. I was also unable to determine the extent of finance leases and work in progress of infrastructure assets not capitalised. Consequently, I am unable to conclude on the existence, completeness, allocation and valuation of and the rights and obligations relating to property, plant and equipment of R65 076 733 (2008: R56 669 950) as disclosed in the Statement of Financial Position and note 7 to the financial statements. The municipality's records did not permit the performance of

alternative audit procedures.

Investments

6. Contrary to the requirements of Standard of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements*, the municipality failed to disclose separately the current and non-current portion of investments in the statement of financial position. Consequently, investments as disclosed under current assets in the statement of financial position are understated by R2 007 298 and investments as disclosed as non-current assets in the statement of financial position are overstated by the same amount.

Long-term receivables

7. I was unable to obtain sufficient appropriate audit evidence for the corresponding figure for long-term receivables disclosed in the statement of financial position and note 8 to the financial statements due to a limitation imposed by a lack of accounting records and explanations considered necessary for my audit. Consequently, I could not determine the completeness, existence, valuation and allocation of and rights and obligations relating to long-term receivables of R1 102 807 in 2008.

VAT

8. The municipality failed to provide for a VAT refund of R2 815 926 from the South African Revenue Service. Consequently, VAT receivable is understated by R2 815 926 and expenditure as disclosed in the statement of financial performance is overstated by the same amount.

Consumer debtors

9. The municipality did not provide sufficient appropriate audit evidence necessary to support the existence of consumer debtors of R17 090 405. The municipality's records did not permit the performance of alternative audit procedures. Consequently, I am unable to satisfy myself as to the completeness, valuation and allocation of and rights and obligations relating to consumer debtors as disclosed in note 10 to the annual financial statements.
10. The municipality did not provide sufficient appropriate audit evidence necessary to support the write-off of bad debts of R2 357 112. The municipality's records did not permit the performance of alternative procedures. Consequently, I was unable to conclude on occurrence and accuracy of bad debts of R16 809 172 as disclosed in note 10 to the financial statements.
11. The municipality failed to make provision for bad debts of R4 314 007. The bad debt provision of R17 301 223 as disclosed in note 10 to the financial statements is therefore understated by R4 314 007. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the valuation of consumer debtors of R7 775 755. (2008: R8 654 382).

Long-term liabilities

12. Contrary to the requirements of Standard of Generally Recognised Accounting Practice, GRAP 13, *Leases*, the municipality failed to classify leases that clearly meet the definition of a finance lease. The municipality is party to lease agreements that have incorrectly been classified as operating leases. Consequently, finance leases liability as disclosed in note 2 to the financial statements is understated by R7 579 221 (2008: R10 819 526), and the current portion of finance lease liability is understated by R3 491 858 (2008: R3 240 305).

Consumer deposits

13. The municipality did not provide sufficient appropriate audit evidence necessary to support consumer deposits of R863 180 as disclosed in note 3 to the financial statements. The

municipality's records did not permit the performance of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to verify the completeness, existence, valuation and allocation of and the rights and obligations relating to consumer deposits of R863 180 as disclosed in the statement of financial position (2008: R819 474).

Provisions

14. Contrary to the requirements of Standard of Generally Recognised Accounting Practice, GRAP 19, *Provisions, contingent liabilities and contingent assets*, the municipality failed to disclose its financial obligation to restore its landfill sites at the end of their economic useful life. Further, the municipality has not made an estimate of the cost to restore the landfill sites in use. I was unable to determine the extent of these provisions due to limitations placed on the scope of my work by the municipality. The municipality's records did not permit the application of alternative audit procedures regarding these provisions. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of provisions. I could not determine the effect of this limitation on the other account balances or classes of transactions contained in the financial statements.

Unspent conditional grants and receipts

15. Included in grants and subsidies of R35 547 925, as disclosed in 16 to the financial statements, are conditional grants amounting to R13 946 953. I was unable obtain sufficient appropriate audit evidence to verify expenditure amounting to R7 217 919 relating to these conditional grants. The municipality's records did not permit the performance of alternative audit procedures pertaining to this expenditure. Consequently I was unable to satisfy myself as to the completeness, valuation and allocation of and the rights and obligations relating to unspent conditional grants of R452 990 as disclosed in note 5 to the financial statements and the statement of financial position.

Bank balances and cash

16. Contrary to the requirements of Standard of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements*, the municipality has offset the bank overdraft of R11 124 109 with the favourable bank balance of R1 511 700. Consequently, current liabilities and current assets as disclosed in the statement of financial position and note 13 to the financial statements are understated by R1 511 700.
17. Cancelled and stale cheques amounting to R2 030 748 drawn prior to year-end have not been accounted for (reversed) in the accounting records of the municipality. Consequently, the bank overdraft is overstated and creditors (accruals) are understated by R2 030 748.

Revenue

18. I was not provided with a valuation roll that supported property rates revenue of R3 073 591. The records of the municipality did not permit the performance of alternate audit procedures. Consequently, I was unable to verify the completeness, accuracy, occurrence, classification and cut-off of property rates as disclosed in note 14 to the financial statements.
19. I was not provided with sufficient appropriate audit evidence to verify licence and permit revenue amounting to R1 117 632. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to verify the occurrence, accuracy, classification, cut-off and completeness of licence and permit revenue.

Commitments



20. Contrary to the requirements of Standard of Generally Recognised Accounting Practice, GRAP 14, *Events after the Reporting Date*, the municipality failed to disclose/recognise the estimated financial effect of significant capital commitments approved and contracted for amounting to R11 667 196. Consequently, capital commitments as disclosed in note 30 to the financial statements are understated by this amount.

Contingent liabilities

21. I was not provided with a contingent liability register, nor a legal confirmation from the municipality's legal counsel. The records of the municipality did not permit the performance of alternate audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness of contingent liabilities of R8 952 085 as disclosed in note 32 to the financial statements.

Fruitless and wasteful, irregular and unauthorised expenditure

22. Contrary to section 112 of the MFMA, the municipality failed to implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective. Payments of R28 272 339 were made in contravention of the supply chain management requirements. These payments have not been included in irregular expenditure as disclosed in note 27 to the financial statements. Consequently, irregular expenditure is understated by R28 272 339.
23. The municipality exceeded its approved budget by R4 426 435. Further, the municipality utilised grants received for housing development fund amounting to R6 055 027 to defray operating costs. Consequently, unauthorised expenditure is understated by R10 481 462.

Restatement of corresponding figures

24. The municipality did not comply with the disclosure requirements of GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors* when restating prior year errors. The municipality failed to provide sufficient appropriate audit evidence to permit me to verify the restated opening balances. Consequently, I am unable to verify extent of adjustments included in the restated opening balances and the disclosures in note 24 to the financial statements.

Disclaimer of opinion

25. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

26. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

27. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and their regulations and financial management (internal control):

- MFMA
- DoRA
- Local Government: Municipal Systems Act, 2000 (Act no. 32 of 2000) (MSA)
- Municipal Structures Act, 1998 (Act No. 117 of 1998)

Predetermined objectives

28. Material findings on the report on predetermined objectives, as set out on pages [XX] to [XX], are reported below:

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

29. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

30. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Lack of adoption or implementation of a performance management system

31. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of reported performance information

32. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit finding relate to the above criteria:

No reporting against predetermined objectives, indicators and targets

33. The municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

Reliability of reported performance information

34. The following criteria were used to assess the usefulness of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?

- Accuracy: Have amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
- Completeness: Have all actual results and events that should have been recorded been included in the reported performance information?

The following audit findings relate to the above criteria:

No reporting against predetermined objectives, indicators and targets

35. The municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

Municipal Finance Management Act, 2003

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

36. Expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality, which resulted in irregular expenditure as per the definition of “irregular expenditure” in section 1 of the MFMA.

Working capital was not managed effectively

37. Contrary to section 65(2), the accounting officer of the municipality failed to take all reasonable steps to ensure that the municipality’s available working capital was managed effectively and economically in terms of the prescribed cash management and investment framework and that the supply chain management was implemented in a way that was fair, equitable, transparent, competitive or cost-effective.

Expenditure was not paid within the parameters set by the applicable legislation

38. Contrary to section 65(1) and (2), the accounting officer failed to ensure that all money owing by the municipality was paid within 30 days of receipt of invoice.

The financial statements were not prepared within the prescribe timeframe

39. The municipality did not prepare and submit their financial statements for auditing within the prescribed timelines in accordance with section 126(1) of the MFMA

Internal control

40. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
41. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

• **Leadership**

Management does not exercise oversight responsibility over financial and performance reporting and compliance with applicable laws and regulations. An effective organisational structure for placing appropriately skilled people is not in place as a high vacancy rate still exists at the municipality.

• **Financial and performance management**

Pertinent information is not identified and captured in a format and time frame to support financial and performance reporting. The financial statements were subject to material amendments resulting from the audit. Supply chain management is not fully effective. Requested information is not always available or supplied without delay.

- **Governance**

Proper governance structures are not in place and not functioning effectively as ongoing monitoring and supervision by internal audit are not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting. The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.

Rustenburg

13 January 2011



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